

**CADILLAC-WEXFORD TRANSIT AUTHORITY**

**(A Component Unit of Wexford County)**

**CADILLAC, MICHIGAN**

**SEPTEMBER 30, 2004**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Cadillac-Wexford Transit Authority</b>	County <b>Wexford</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>10/20/04</b>	Date Accountant Report Submitted to State: <b>11/11/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

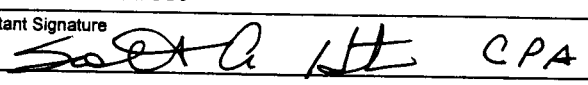
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Baird, Cotter &amp; Bishop, P.C.</b>			
Street Address <b>134 W. Harris Street</b>	City <b>Cadillac</b>	State <b>MI</b>	ZIP <b>49601</b>
Accountant Signature  CPA		Date <b>11.11.04</b>	

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SEPTEMBER 30, 2004

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Managements Discussion and Analysis	iii-viii
Comparative Statement of Net Assets	1-2
Comparative Statement of Revenues, Expenses and Changes In Net Assets	3
Comparative Statement of Cash Flows	4-5
Notes to Financial Statements	6-15
<u>SUPPORTING SCHEDULES</u>	
Comparative Schedule of Operating Revenues	16
Schedule of Operating Expenses	17-18
Comparative Schedule of Nonoperating Revenues	19
Schedule of Federal and State Grants	20-21
<u>STATISTICAL TABLES</u>	
Schedule of Expenses by Contract and General Operations	22
Net Eligible Costs Computations of General Operations	24
Schedule of Mileage Data (Unaudited)	25

# *Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

October 20, 2004

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Cadillac-Wexford Transit Authority  
(A Component Unit of Wexford County)  
Cadillac, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Cadillac-Wexford Transit Authority, a component unit of Wexford County, as of and for the year ended September 30, 2004 which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Cadillac-Wexford Transit Authority, as of September 30, 2004, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Cadillac-Wexford Transit Authority, Cadillac, Michigan basic financial statements. The accompanying information listed as supporting schedules and statistical tables in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Cadillac-Wexford Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

CADILLAC- WEXFORD TRANSIT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

This section of the Authority's Comprehensive Annual Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2004. This section should be read in conjunction with the financial statements which follow this section.

**Financial Highlights**

- The assets of the Authority exceeded its liabilities at September 30, 2004, by \$1,700,271. Of this amount, \$534,184 represents net assets which are not invested in capital assets.
- The Authority's total net assets decreased by \$196,218.
- The Authority remained free of long-term debt during the period.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

**Financial Analysis**

For the year ended September 30, 2004, assets exceeded liabilities by \$1,700,271. Transit is a capital-intensive enterprise, and approximately 69% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

CADILLAC- WEXFORD TRANSIT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Summary Statement of Net Assets

	2004	2003
Assets:		
Current Assets	\$ 646,816	\$ 628,295
Capital Assets (Net)	1,166,087	1,360,757
Total Assets	<u>\$ 1,812,903</u>	<u>\$ 1,989,052</u>
Liabilities:		
Current Liabilities	\$ 112,632	\$ 92,563
Net Assets:		
Invested in Capital Assets	1,166,087	1,360,757
Unrestricted	<u>534,184</u>	<u>535,732</u>
Total Liabilities and Net Assets	<u>\$ 1,812,903</u>	<u>\$ 1,989,052</u>

The Authority's net assets decreased by \$196,218 in 2004. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets which show how the \$196,218 decrease in net assets occurred. Also shown is the change for the year ended September 30, 2003.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2004	2003
Operating Revenue	\$ 250,866	\$ 227,307
Operating Expenses	<u>1,512,513</u>	<u>1,401,498</u>
Operating Loss	<u>\$ (1,261,647)</u>	<u>\$ (1,174,191)</u>
Taxes	\$ 288,361	\$ 278,856
Other Nonoperating Revenue	713,100	668,051
Total Nonoperating Revenue	<u>\$ 1,001,461</u>	<u>\$ 946,907</u>
Net Income (Loss)	\$ (260,186)	\$ (227,284)
Capital Grants	<u>63,968</u>	<u>47,622</u>
Change in Net Assets	<u>\$ 196,218</u>	<u>\$ (179,662)</u>

CADILLAC- WEXFORD TRANSIT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

**Operating Revenues**

The following table shows 2004 revenue compared to 2003:

<u>REVENUES</u>	<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>	<u>2003 AMOUNT</u>	<u>2003 PERCENT OF TOTAL</u>	<u>INCREASE (DECREASE) FROM 2003</u>
Operating Revenue	\$ 250,866	20.03 %	\$ 227,307	19.35%	\$ 23,559
Interest Income	4,027	0.32	4,766	0.40	(739)
Property Tax	288,361	23.03	278,856	23.75	9,505
Federal Assistance	145,773	11.64	134,892	11.49	10,881
State Assistance	544,031	43.44	528,393	45.01	15,638
Gain on Sale of Assets	19,269	1.54	0	0.00	19,269
Total Revenue	<u>\$ 1,252,327</u>	<u>100.00 %</u>	<u>\$ 1,174,214</u>	<u>100.00 %</u>	<u>\$ 78,113</u>
<u>CAPITAL CONTRIBUTIONS</u>					
Federal	\$ 38,607	60.35%	\$ 38,098	80.00%	\$ 509
State	25,361	39.65	9,524	20.00	15,837
	<u>\$ 63,968</u>	<u>100.00 %</u>	<u>\$ 47,622</u>	<u>100.00 %</u>	<u>\$ 16,346</u>

The federal reimbursement rate remained at 10.95% for eligible expenditures. The State reimbursement rate, however, dropped from 43.800078503% to 42.236619648%. The actual State operating assistance revenue did increase for fiscal year 2003-04, but not in proportion to the increase in eligible expenditures which contributed to the larger decrease in net assets. The Authority also sold a piece of land which is reflected in the gain on sale of assets. The sale also resulted in a land contract receivable for \$49,000 which is due to be paid in full by August 5, 2005.

**Operating Expenses**

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

Operations - Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (up-keep, utilities and rent).

Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.



CADILLAC- WEXFORD TRANSIT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

The following table shows the expenses for 2004 compared to 2003 by department:

<u>DEPARTMENT</u>	<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>	<u>2003 AMOUNT</u>	<u>2003 PERCENT OF TOTAL</u>	<u>INCREASE (DECREASE) FROM 2003</u>
Operations	\$ 818,272	54.10 %	\$ 727,415	51.90 %	\$ 90,857
Maintenance	211,604	13.99	185,285	13.22	26,319
Administration	252,632	16.70	262,607	18.74	(9,975)
Depreciation	230,005	15.21	226,191	16.14	3,814
Total Expenses	<u>\$ 1,512,513</u>	<u>100.00 %</u>	<u>\$ 1,401,498</u>	<u>100.00 %</u>	<u>\$ 111,015</u>

- Operations increased because wages were up. Fuel costs have continued to rise which also contributed to the increase.
- Maintenance costs increased in large part due to upkeep needed to keep the Authority's busses in good repair.
- Administration costs were quite comparable to last year.

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2004 compared to 2003 by object:

<u>OBJECT</u>	<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>	<u>2003 AMOUNT</u>	<u>2003 PERCENT OF TOTAL</u>	<u>INCREASE (DECREASE) FROM 2003</u>
Wages and Benefits	\$ 910,577	60.20 %	\$ 865,654	61.77 %	\$ 44,923
Services	87,980	5.82	68,558	4.89	19,422
Supplies and Materials	160,371	10.60	121,739	8.69	38,632
Utilities	25,516	1.69	26,675	1.90	(1,159)
Casualty and Liability	82,418	5.45	76,925	5.49	5,493
Miscellaneous	15,646	1.03	15,756	1.12	(110)
Depreciation	230,005	15.21	226,191	16.14	3,814
Total	<u>\$ 1,512,513</u>	<u>100.00 %</u>	<u>\$ 1,401,498</u>	<u>100.00 %</u>	<u>\$ 111,015</u>

CADILLAC- WEXFORD TRANSIT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

- Wages and benefits increased as a result of higher wage and benefit rates and more drivers and dispatchers during 2004.
- Services expenses increased due mainly to increased spending on maintenance and repairs and partially to more spending on professional fees.
- Supplies expense increased as more was spent on fuel and on tire and operating supplies this year.
- Casualty and liability costs increased because of higher insurance premiums and other claims.

**Capital Assets**

The Authority's investment in capital assets as of September 30, 2004, amounted to \$1,166,087 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2004 included the following:

- Camera Systems (\$13,820).
- Rebuilt engine and transmission (\$15,777).
- Various shop equipment (\$13,716).
- Four A.E.D.'s, twenty wheelchairs, and accessories (\$17,371).

Additional information on the Authority's capital assets can be found in the notes to the financial statements.

**Economic Factors and Future Outlook**

At the time these financial statements were prepared and audited, the Authority was aware of the following items that could significantly affect its financial health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance grants will be funded.
- As with other employers, the Authority continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.
- The employee contract was negotiated and approved. The contract expires December 31, 2007.

CADILLAC- WEXFORD TRANSIT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

**Request for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Cadillac-Wexford Transit Authority, 1202 N. Mitchell Street, Cadillac, MI 49601.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF NET ASSETS

SEPTEMBER 30,

	2004	2003
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 379,734	\$ 486,905
Accounts Receivable	18,626	15,238
Prepaid Expense	31,183	42,983
Accrued Interest Receivable	115	273
Due From Other Governments	168,158	82,896
Land Contract Receivable	49,000	0
Total Current Assets	\$ 646,816	\$ 628,295
<u>PROPERTY AND EQUIPMENT</u>		
Land and Building	\$ 1,028,580	\$ 1,059,250
Buses	1,390,913	1,341,921
Other Vehicles	45,439	45,439
Bus and Garage Equipment	149,810	136,094
Office Equipment	64,620	62,198
Less Accumulated Depreciation	\$ 2,679,362 (1,513,275)	\$ 2,644,902 (1,284,145)
Net Property and Equipment	\$ 1,166,087	\$ 1,360,757
TOTAL ASSETS	\$ 1,812,903	\$ 1,989,052

The accompanying notes are an integral part of these financial statements.

	2004	2003
<b><u>LIABILITIES</u></b>		
Accounts Payable	\$ 26,391	\$ 14,823
Accrued Liabilities		
Payroll Withholdings	1,709	1,604
Salaries and Wages	23,701	18,773
Compensated Absences	60,831	57,363
Total Liabilities	\$ 112,632	\$ 92,563
 <b><u>NET ASSETS</u></b>		
Invested in Capital Assets	\$ 1,166,087	\$ 1,360,757
Unrestricted	534,184	535,732
Total Net Assets	\$ 1,700,271	\$ 1,896,489
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 1,812,903</b>	 <b>\$ 1,989,052</b>

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2004</u>	<u>2003</u>
<u>OPERATING REVENUES</u>	\$ 250,866	\$ 227,307
<u>OPERATING EXPENSES</u>	<u>1,512,513</u>	<u>1,401,498</u>
Operating Income (Loss)	\$ (1,261,647)	\$ (1,174,191)
<u>NONOPERATING REVENUES</u>	<u>1,001,461</u>	<u>946,907</u>
Income (Loss) before Capital Contributions	\$ (260,186)	\$ (227,284)
<u>CAPITAL CONTRIBUTIONS</u>		
Federal Financial Assistance	\$ 38,607	\$ 38,098
State of Michigan	<u>25,361</u>	<u>9,524</u>
Total Capital Contributions	\$ 63,968	\$ 47,622
Change in Net Assets	\$ (196,218)	\$ (179,662)
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>1,896,489</u>	<u>2,076,151</u>
<u>TOTAL NET ASSETS - End of Year</u>	<u>\$ 1,700,271</u>	<u>\$ 1,896,489</u>

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 247,478	\$ 226,547
Cash Payments to Suppliers for Goods and Services	(617,705)	(590,542)
Cash Payments to Employees for Services	(632,934)	(598,458)
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,003,161)</u>	<u>\$ (962,453)</u>
Cash Flows from Noncapital Financing Activities:		
Tax Levy Proceeds	\$ 288,361	\$ 278,856
State Operating Grants Received	488,206	456,764
Federal Operating Grants Received	117,195	174,798
Net Cash Provided by Noncapital Financing Activities	<u>\$ 893,762</u>	<u>\$ 910,418</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (66,005)	\$ (59,955)
Capital Grants Received	63,109	170,525
Proceeds from the Sale of Assets	939	0
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>\$ (1,957)</u>	<u>\$ 110,570</u>
Cash Flows from Investing Activities:		
Interest Received	\$ 4,185	\$ 4,753
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (107,171)</u>	<u>\$ 63,288</u>
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>486,905</u>	<u>423,617</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 379,734</u>	<u>\$ 486,905</u>

The accompanying notes are an integral part of these financial statements.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	<u>\$ (1,261,647)</u>	<u>\$ (1,174,191)</u>
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 230,005	\$ 226,191
(Increase) Decrease in Current Assets		
Accounts Receivable	(3,388)	(760)
Prepaid Expense	11,800	(13,937)
Increase (Decrease) in Current Liabilities		
Accounts Payable	11,568	(9,021)
Accrued Liabilities	8,501	9,265
Total Adjustments	<u>\$ 258,486</u>	<u>\$ 211,738</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (1,003,161)</u>	<u>\$ (962,453)</u>

The accompanying notes are an integral part of these financial statements.



CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Cadillac-Wexford Transit Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

**A. Reporting Entity**

On June 23, 1981, the City of Cadillac and the County of Wexford created the Cadillac-Wexford Transit Authority, a separate legal and administrative unit of government pursuant to the Urban Cooperation Act. The purpose of the Authority is to provide public transportation services to the general public within Wexford County. The Authority began to provide transportation services on September 1, 1982. The Transit Authority is financed by state and federal subsidies as well as a county-wide property tax levy.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**D. Assets, Liabilities and Equity**

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Authority's investment policy is in compliance with state law and authorizes the Authority to invest in investments authorized by Act 20 of the Public Acts of Michigan of 1943, as amended, provided however, any investment in mutual funds authorized by Act 20 shall be limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. Capital Assets and Depreciation

Capital assets are stated at cost. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by an Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

3. Inventory and Prepaid Items

The Authority does not maintain a fuel inventory. Supply inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

4. Compensated Absences

The Authority accrues sick and vacation benefits in the period they are earned. Vacation leave is earned in varying amounts depending on the number of years of service of an employee. At September 30, 2004 and 2003, the sick and vacation benefits accrued was \$60,830 and \$57,363, respectively.

5. Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

II. DETAILED NOTES ON ALL FUNDS

A. **Property and Equipment**

A summary of changes in the Authority's capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 76,895	\$ 0	\$ (30,670)	\$ 46,225
Capital assets, being depreciated				
Buildings	\$ 982,355	\$ 0	\$ 0	\$ 982,355
Buses	1,341,921	48,992	0	1,390,913
Other Vehicles	45,439	0	0	45,439
Bus and Garage Equipment	136,094	13,716	0	149,810
Office Equipment	62,198	3,847	(1,425)	64,620
Total capital assets, being depreciated	\$ 2,568,007	\$ 66,555	\$ (1,425)	\$ 2,633,137
Less accumulated depreciation for:				
Buildings	\$ 403,131	\$ 49,219	\$ 0	\$ 452,350
Buses	717,260	159,653	0	876,913
Other Vehicles	25,636	5,165	0	30,801
Bus and Garage Equipment	96,953	10,380	0	107,333
Office Equipment	41,165	5,588	(875)	45,878
Total accumulated depreciation	\$ 1,284,145	\$ 230,005	\$ (875)	\$ 1,513,275
Total capital assets, being depreciated, net	\$ 1,283,862	\$ (163,450)	\$ (550)	\$ 1,119,862
Business-type activities capital assets, net	\$ 1,360,757	\$ (163,450)	\$ (31,220)	\$ 1,166,087

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

Major classes of property and equipment consist of the following:

	PURCHASED WITH AUTHORITY FUNDS	PURCHASED WITH CAPITAL GRANTS	TOTAL
Land and Buildings	\$ 291,533	\$ 737,047	\$ 1,028,580
Buses	53,006	1,337,907	1,390,913
Other Vehicles	20,661	24,778	45,439
Bus and Garage Equipment	57,152	92,658	149,810
Office Equipment	27,715	36,905	64,620
Less Accumulated Depreciation	\$ 450,067 (225,836)	\$ 2,229,295 (1,287,439)	\$ 2,679,362 (1,513,275)
NET PROPERTY AND EQUIPMENT	\$ 224,231	\$ 941,856	\$ 1,166,087

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

**B. Receivables**

Receivables as of year end for the Authority are as follows:

Receivables	
Interest	\$ 115
Accounts	18,626
Land Contract	49,000
Total Receivables	\$ 67,741

The allowance for doubtful accounts is not considered to be material for disclosure.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**C. Property Taxes**

The Authority levies a voter-approved, county-wide property tax at the rate of .4000 of one mill. The voters granted the authority to levy .4000 of one mill for 2002, 2003, 2004 and 2005. Property taxes attach as an enforceable lien on the property as of the date they are levied. The taxes are levied and due December 1, and become delinquent after February 14. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period. The taxes are recognized as revenue in the year in which payment is collected. Wexford County has a tax revolving fund which allows the County to pay off the real property taxes which have been returned delinquent.

**D. Deposits and Investments**

At September 30, 2004, the carrying amount of the Authority's deposits was \$379,734 and the bank balance was \$386,632 of which \$272,902 was covered by federal depository insurance and \$113,730 was uninsured and uncollateralized. At September 30, 2003, the carrying amount of the Authority's deposits was \$486,905 and the bank balance was \$489,758 of which \$269,653 was covered by federal depository insurance and \$220,105 was uninsured and uncollateralized.

**E. Contingencies**

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2000, 2001, 2002 and 2003, either have not commenced or have not been completed.

**F. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**G. Risk Management**

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Authority carries commercial insurance to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this coverage in any of the past four fiscal years.

**H. Concentration of Credit Risk**

For the fiscal year ended September 30, 2004, the Authority was reimbursed by the State of Michigan for 42.236619648% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the State. Therefore, the percentage will be recalculated after total eligible operating expenses are determined based on audited figures.

**I. Employee Retirement System**

For the year ended September 30, 2000, the Cadillac-Wexford Transit Authority began contributing to the Municipal Employees Retirement System of Michigan (MERS).

*Plan Description.* Substantially all full-time employees of the Authority are members of the **Municipal Employees Retirement System of Michigan** (MERS) which provides retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer pension plan administered by the State of Michigan. Act No. 427 of the Public Acts of 1984, as amended, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case, the authority rests with the Cadillac-Wexford Transit Authority. The MERS issues a publicly available financial report that includes statements and required supplementary information for MERS. That report may be obtained by writing to The Retirement Board, Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, MI 48917.

*Funding Policy.* MERS members are not required to make any contributions to the plan. The Authority is required to contribute at an actuarially determined rate; the current rate is 11.01% to 16.98% of annual covered payroll depending on division of employees.

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**I. Employee Retirement System**

*Annual Pension Cost.* For the years ended September 30, 2004 and 2003, the annual pension cost was \$59,406 and \$54,352.

**TREND INFORMATION FOR MERS**

<b>FISCAL YEAR ENDING</b>	<b>ANNUAL PENSION COST (APC)</b>	<b>PERCENTAGE OF APC CONTRIBUTED</b>	<b>NET PENSION OBLIGATION</b>
9/30/00	123,227	100%	0
9/30/01	56,810	100%	0
9/30/02	62,675	100%	0
9/30/03	54,352	100%	0
9/30/04	59,406	100%	0

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE SCHEDULE OF OPERATING REVENUES  
FOR THE YEARS ENDED SEPTEMBER 30,

OPERATING REVENUES

Fares  
Greyhound and Indian Trail Commissions  
Freight  
Other

	2004	2003
\$	241,368	\$ 219,222
	9,027	7,923
	0	9
	471	153
\$	<u>250,866</u>	<u>\$ 227,307</u>

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF OPERATING EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2003

	2004			
	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Drivers and Dispatchers	\$ 388,133	\$ 0	\$ 0	\$ 388,133
Agents	19,984	0	0	19,984
Maintenance	0	50,190	0	50,190
Administration	33,310	34,269	115,444	183,023
Fringe Benefits				
FICA	33,290	6,160	8,886	48,336
Unemployment Taxes	7,398	1,080	914	9,392
Retirement	26,354	7,345	25,707	59,406
Group Insurance	56,397	17,427	10,518	84,342
Workers' Compensation	40,108	6,093	996	47,197
Uniforms and Other	17,817	978	1,779	20,574
Services				
Professional	4,921	0	53,641	58,562
Maintenance	0	29,418	0	29,418
Materials and Supplies Consumed				
Fuel and Lubricants	77,656	0	0	77,656
Tires and Tubes	10,132	0	0	10,132
Other Materials and Supplies	8,130	57,413	7,040	72,583
Utilities	18,289	0	7,227	25,516
Casualty and Liability Costs	72,379	0	10,039	82,418
Miscellaneous Expenses				
Advertising/Promotion Media	0	0	5,885	5,885
Dues and Subscriptions	0	0	1,910	1,910
Travel and Meetings	3,974	1,231	2,646	7,851
Depreciation	214,037	10,380	5,588	230,005
	<u>\$ 1,032,309</u>	<u>\$ 221,984</u>	<u>\$ 258,220</u>	<u>\$ 1,512,513</u>

	2003
	<u>TOTAL</u>
	<u>SYSTEM</u>

\$	347,115
	16,780
	55,012
	188,816

	45,705
	6,557
	54,352
	82,378
	58,492
	10,447

	53,075
	15,483

	58,270
	2,455
	61,014
	26,675
	76,925

	4,132
	2,167
	9,457
	<u>226,191</u>

\$	<u><u>1,401,498</u></u>
----	-------------------------

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

COMPARATIVE SCHEDULE OF NONOPERATING REVENUES  
FOR THE YEARS ENDED SEPTEMBER 30,

	2004	2003
<u>LOCAL SOURCES</u>		
Tax Levy	\$ 288,361	\$ 278,856
<u>STATE SOURCES</u>		
State of Michigan Operating Grants		
Local Bus Operating Assistance (Act 51)		
Prior Year Adjustment - 1999	\$ (7,571)	\$ 0
2003	0	528,393
2004	555,204	0
Project Zero - Prior Year Adjustment	(3,602)	0
Total State Sources	\$ 544,031	\$ 528,393
<u>FEDERAL SOURCES</u>		
U.S. Department of Transportation		
Operating Grant - Section 5311		
Contract No. 02-0023/Z5	\$ 0	\$ 131,392
Contract No. 02-0023/Z7	143,268	0
Rural Transit Assistance Program	2,505	3,500
Total Federal Sources	\$ 145,773	\$ 134,892
<u>OTHER</u>		
Interest Income	\$ 4,027	\$ 4,766
Gain on Sale of Assets	19,269	0
Total Other	\$ 23,296	4,766
TOTAL NONOPERATING REVENUES	\$ 1,001,461	\$ 946,907

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF FEDERAL AND STATE GRANTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

OPERATING ASSISTANCE

Operating Assistance

1999

2000

2001

2002

2003

2004

DUE FROM  
(TO) STATE  
10-1-03

ADJUSTMENTS

EARNED

\$	7,610	\$	7,571	\$	0
	19,822		0		0
	(1,283)		0		0
	2,340		0		0
	39,409		0		0
	0		0		555,204

\$ 67,898 \$ 7,571 \$ 555,204

Federal Section 5311

01-0018

02-0023/Z2

02-0023/Z5

RTAP-02/03

02-0023/Z7

RTAP-03/04

\$	(7,633)	\$	0	\$	0
	(3,322)		0		0
	19,862		0		0
	2,416		0		0
	0		0		143,268
	0		0		2,505

\$ 11,323 \$ 0 \$ 145,773

Project Zero

2000-0242

\$ 0 \$ 3,602 \$ 0

Total Operating Assistance

\$ 79,221 \$ 11,173 \$ 700,977

CAPITAL GRANTS

02-0023/Z4

02-0023

02-0023/Z6

02-0023/Z8

02-0023/Z10

RTAP-03/04

\$	0	\$	0	\$	16,835
	3,675		0		0
	0		0		31,087
	0		0		11,312
	0		0		4,464
	0		0		270

\$ 3,675 \$ 0 \$ 63,968

Total Capital Grants

TOTAL FEDERAL AND  
STATE GRANTS

\$ 82,896 \$ 11,173 \$ 764,945

RECEIVED NET OF (REPAYMENTS)	DUE FROM (TO) STATE 9-30-04
\$ 39	\$ 0
0	19,822
0	(1,283)
(6,824)	9,164
29,978	9,431
<u>468,615</u>	<u>86,589</u>
\$ 491,808	\$ 123,723
\$ 0	\$ (7,633)
0	(3,322)
3,083	16,779
2,416	0
111,366	31,902
330	2,175
<u>\$ 117,195</u>	<u>\$ 39,901</u>
\$ (3,602)	\$ 0
\$ 605,401	\$ 163,624
\$ 16,835	\$ 0
3,675	0
31,017	70
11,312	0
0	4,464
<u>270</u>	<u>0</u>
\$ 63,109	\$ 4,534
<u>\$ 668,510</u>	<u>\$ 168,158</u>



CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	RTAP	OPERATIONS	TOTAL
Labor	\$ 0	\$ 641,330	\$ 641,330
Fringe Benefits	0	269,247	269,247
Services	0	87,980	87,980
Materials and Supplies	0	160,371	160,371
Utilities	0	25,516	25,516
Casualty and Liability Costs	0	82,418	82,418
Miscellaneous Expenses	2,505	13,141	15,646
Depreciation	0	230,005	230,005
TOTAL EXPENSES	\$ 2,505	\$ 1,510,008	\$ 1,512,513

CADILLAC-WEXFORD TRANSIT AUTHORITY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	FEDERAL SECTION 5311 PROJECT NO. 02-0023/Z7	STATE OPERATING ASSISTANCE (ACT 51)
Operating Expenses		
Labor	\$ 641,330	\$ 641,330
Fringe Benefits	269,247	269,247
Services	87,980	87,980
Materials and Supplies	160,371	160,371
Utilities	25,516	25,516
Casualty and Liability Costs	82,418	82,418
Miscellaneous Expenses	13,141	13,141
Depreciation	230,005	230,005
Total Expense	\$ 1,510,008	\$ 1,510,008
Less Ineligible Expenses		
Depreciation	\$ 195,500	\$ 195,500
Audit Fees	6,125	0
Total Ineligible Expenses	\$ 201,625	\$ 195,500
NET ELIGIBLE EXPENSES	\$ 1,308,383	\$ 1,314,508
Federal		
Section 5311 Reimbursement (10.95%)	\$ 143,268	
State Statutory Operating Assistance		
42.236619648 % of Net Eligible Expenses		\$ 555,204
But at Least a Minimum of Its:		
1997 Floor of \$300,361		

CADILLAC-WEXFORD TRANSIT AUTHORITY  
(A Component Unit of Wexford County)  
CADILLAC, MICHIGAN

SCHEDULE OF MILEAGE DATA  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(UNAUDITED)

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2004. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

DEMAND-RESPONSE

Quarter Ended:

December 31, 2003

March 31, 2004

June 30, 2004

September 30, 2004

TOTAL

TOTAL PUBLIC  
TRANSPORTATION  
MILEAGE

100,867

100,833

112,667

105,350

419,717

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

Cadillac-Wexford Transit Authority  
Cadillac, Michigan

Dear Board Members:

We have completed our audit of the Cadillac-Wexford Transit Authority financial statements, and are communicating to you our comments and recommendations for the year ended September 30, 2004. The following comments and recommendations are to be reviewed and considered when the Authority is implementing organizational and procedural changes.

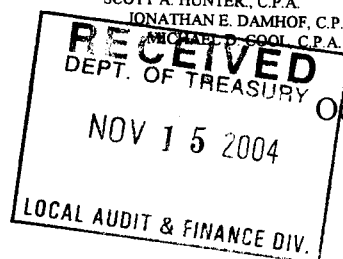
I. Reportable Condition on Internal Control

During the course of our audit of the financial statements of the Cadillac-Wexford Transit Authority, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements:

- (a) The relatively small number of people involved in the accounting functions of the Transit Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties, and we note this item here only to maintain the Board's awareness of this limitation in their internal controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.



October 20, 2004

The foregoing is a communication which is required by Statement of Auditing Standards Number 60. We realize, however, that it might not be financially cost effective for the Authority to establish a larger accounting staff to allow implementation of additional segregation of duties.

II. State Operating Assistance

The state operating assistance revenue is calculated using a reimbursement rate provided by the Michigan Department of Transportation. This rate is based on estimated expenditures by Transit Authorities throughout the State. When the state receives the final expenditure reports from each transit, they adjust the reimbursement rate to reflect available funds. For the 2003-2004 year, the Transit Authority is expected to receive 42.2366% of eligible expenses. When the distribution is completed based on actual eligible expenses, the reimbursement rate could be adjusted lower.

We wish to thank the Board for their continued confidence in our firm, and the administration and staff for their cooperation and assistance in helping us complete this engagement. If you have any questions relative to the preceding comments and recommendations, or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*